

TABLE OF CONTENTS

INTRODUCTION	1	
SCOPE		1
EXECUTIVE SUMMARY	1-2	
LOCAL OFFICE RESPONSE	2	
FINDINGS AND RECOMMENDATIONS - COMPLIANCE		
Mail Opening		2
FIA-61 Log		2-3
Returned State Warrant-Permanent File	3	
Pending File of FIA-138/2362's	3-4	
Payment Authorization Files		4
Supporting Documentation for Payments	4-5	
Separation of Duties - Disbursements		5
Filing Voided Checks		6
Controlled Documents	6-7	
Outstanding Accounts Receivable Files	7	
CIS Status Codes	7-8	
RECOMMENDATION FOR IMPROVED INTERNAL CONTROLS		
MA-010 Reconciliation - Openings and Reopenings	8	

INTRODUCTION

The Office of Internal Audit performed an audit of St. Clair County FIA for the period October 1, 1997 through January 5, 1998. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. St. Clair County FIA had 129 full time equated positions (FTE's) at the time of our review. St. Clair County FIA provided assistance to an average 3,045 recipients per month during FY 1996, with total assistance payments of \$4,265,710 during that year.

SCOPE

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at St. Clair County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	ENP/SER Payments
Safe & Controlled Documents	IRS Information Security
Modified Accrual Balance Sheet	

EXECUTIVE SUMMARY

Based on our audit, we conclude that the St. Clair County FIA internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We

found several instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

LOCAL OFFICE RESPONSE

The management of St. Clair County FIA has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated April 1, 1998 that they are in general agreement with the report.

FINDINGS AND RECOMMENDATIONS - COMPLIANCE

The following are areas where we found that the St. Clair County FIA was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

Mail Opening

1. St. Clair County FIA had three people working independently opening the mail. Accounting Manual Item 403 requires that two people work together to open the mail. Having two people working together to open the mail helps to ensure that cash and negotiable instruments received in the mail are not lost or stolen prior to being recorded at the local office.

WE RECOMMEND that St. Clair County FIA have two people work together to open the mail.

FIA-61 Log

2. St. Clair County FIA did not perform a weekly reconciliation of checks/warrants on hand to the open items on the Record and Disposition of Checks/Warrants (FIA-61), as required by Accounting Manual Item 460. We found one warrant on hand that was not

recorded on the FIA-61 log. It came through the mail but was not recorded on the log. A weekly reconciliation is necessary for timely detection of any warrants/checks that are lost or stolen, and to ensure that all checks/warrants on hand are properly recorded on the FIA-61.

WE RECOMMEND that St. Clair County FIA perform a weekly reconciliation of checks/warrants on hand to the FIA-61.

Returned State Warrant-Permanent File

3. St. Clair County FIA did not keep the permanent file of Action Taken on State Warrants (FIA-138) and Services Warrant Rewrites (FIA-2362) in case number or alphabetical sequence as required by Accounting Manual Item 462. Rather, the local office filed the FIA-138/2362's with the FIA-61's. Maintaining this file in alpha or case number order provides an audit trail to the FIA-61, Record and Disposition of Checks/Warrants.

WE RECOMMEND that St. Clair County FIA maintain the FIA-138/2362's permanent file in either alpha or case number order.

Pending File of FIA-138/2362's

4. St. Clair County FIA did not maintain a pending file of Action Taken on State Warrants (FIA-138) and Services Warrants Rewrites (FIA-2362) as required by Accounting Manual Item 462. Rather, the local office gave the workers all copies of the form. Maintenance of a pending file provides an audit trail to the FIA-61 and warrants on hand.

WE RECOMMEND that St. Clair County FIA maintain a pending file of FIA-138/FIA-2362's.

Payment Authorization Files

5. St. Clair County FIA did not maintain the files of Supplemental Payment Authorizations (FIA-13), Authorization Invoices (FIA-849), and Medical Authorizations (FIA-93(A)) in either alphabetical or case number order, as required by Accounting Manual Item 404. Rather, the local office was maintaining the FIA-13's in month order, and the FIA-849's and FIA-93(A)'s attached to the monthly reconciliation report by month. Maintaining the FIA-13's, FIA-849's, and FIA-93(A)'s in either alphabetical or case number order provides an audit trail to easily detect how many supplements or emergency payments a client has received, and makes the FIA-13's, FIA-849's, and FIA-93(A)'s easy to retrieve if needed at a later date.

WE RECOMMEND that St. Clair County FIA maintain FIA-13's, FIA-849's, and FIA-93(A) in either alphabetical or case number order.

Corrective Action: St. Clair County FIA indicated that it would create an alpha file for each of the payment documents.

Supporting Documentation for Payments

6. St. Clair County FIA did not attach supporting documentation to the FIA-849 on file in the Accounting Office, as required by Accounting Manual Item 404. We reviewed 91 payments and found the original invoice or other supporting documentation was not attached to support the payments made. We selected 20 case files to verify there was an original invoice or other supporting documentation in the case file. Five of the payments reviewed did not have supporting documentation in the case file and six cases had a copy of the bill. Attaching original invoices to the Accounting Office copy of the FIA-849 helps ensure that all FIA-849 payments are accurate and appropriate.

WE RECOMMEND that St. Clair County FIA attach the original invoice or other supporting documentation to the Accounting Office original of the FIA-849.

Corrective Action: St. Clair County FIA plans to retrieve the invoices for each of the FIA-849's.

Separation of Duties - Disbursements

7. St. Clair County FIA did not properly separate the cash disbursements duties. Our review disclosed that the same employee ran the checks through the check signer, completed the Sign-O-Meter Record (FIA-4711), had access to blank checks, reconciled the Sign-O-Meter, and performed the bank reconciliation. Accounting Manual Item 410.1 states that the FIA-4711 should be prepared by someone independent of the automated disbursements function. Accounting Manual Item 405 states that the person reconciling the disbursing account should not be responsible for check writing or have access to blank checks.

WE RECOMMEND that St. Clair County FIA have an employee, who does not have access to blank checks and is independent of the check signing process, perform the bank reconciliation.

WE ALSO RECOMMEND that the Sign-O-Meter be reconciled by someone other than the person who operates the check signing machine.

Filing Voided Checks

8. St. Clair County FIA did not file voided checks in numerical sequence with the canceled checks in the month in which they were voided, as required by Accounting Manual Item 410. Rather, the local office was filing voided checks with the journal vouchers. Filing

voided checks in numerical sequence with the canceled checks helps to ensure that all checks are properly accounted for.

WE RECOMMEND that St. Clair County FIA file voided checks in numerical sequence with the canceled checks in the month in which they were voided.

Corrective Action: St. Clair County FIA is now filing voided checks with canceled checks.

Controlled Documents

9. St. Clair County FIA did not properly control blank documents. We noted that the fiscal supervisor receipted in the documents, had access to the documents, and performed the Monthly Controlled Document and Inventory and Reconciliation. Accounting Manual Item 403 states that a designated employee not directly involved with the purchase, receipt, or use of the documents should control and be accountable for the inventory of the unused documents. Having an independent person prepare the Monthly Controlled Document Inventory and Reconciliation helps to ensure that loss, theft, or misuse of controlled documents, which could be used to generate unauthorized payments, would be detected on a timely basis.

WE RECOMMEND that St. Clair County FIA have an independent employee prepare the Monthly Controlled Document Inventory and Reconciliation for all controlled documents.

Outstanding Accounts Receivable Files

10. St. Clair County FIA did not maintain an Outstanding Accounts Receivable file for each type of billing/report/authorization used to obtain reimbursement from the State, as required

by Accounting Manual Item 402.3. Maintaining these files helps the local office keep accurate records of amounts due from the State, and helps to ensure accurate reporting of accounts receivable for reporting on the Modified Accrual Basis Balance Sheet.

WE RECOMMEND that St. Clair County FIA maintain an Outstanding Accounts Receivable file for each type of billing/report/authorization used to obtain reimbursement from the State.

Corrective Action: St. Clair County FIA has prepared Accounts Receivable files for amounts due from State.

CIS Status Codes

11. St. Clair County FIA did not have updated CIS Security Agreements (FIA-3974A) for all employees who access the Client Information System (CIS), as required by letter L-97-063. Five out of the 128 employees at St. Clair County had a different status code on CIS than was indicated on their Security Agreements, and two employees had agreements on file, but were not listed on the Operator Identification Report (PF-011). Updated CIS Security Agreements provide documentation that employees are aware of the duties and responsibilities associated with their current operator status on CIS.

WE RECOMMEND that St. Clair County FIA ensure that updated CIS Security Agreements are on file for all employees who access CIS.

RECOMMENDATION FOR IMPROVED INTERNAL CONTROLS

The following is an area where we have identified a control weakness at St. Clair County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

MA-010 Reconciliation - Openings and Reopenings

12. St. Clair County FIA did not reconcile all new case openings and reopenings listed on the Transaction Control Listing (MA-010) Report to the Request and Registration Control Record (FIA-3614), as recommended by the Primary Internal Control Criteria for FIA Local/District Office Operations. A 100% reconciliation of openings and reopenings provides assurance that cases were opened only by their assigned workers.

WE RECOMMEND that St. Clair County FIA reconcile all case openings and reopenings on the MA-010 Report to the FIA-3614's.